SEB

Information to media

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SEB’s China Financial Index- North European companies less positive in China

China’s monetary tightening combined with concerns about slower global growth impacting the Chinese economy have made senior managers of North European subsidiaries in China less optimistic about the market prospects and profit expectations on the previously red hot Chinese market. SEB’s China Financial Index fell to 63.4 in September from 70 in the last report published in March.

Although the pace of expansion in China has fallen slightly, over half of the companies that responded to SEB’s survey plan for further investments and one out of four is planning significant investments in the coming six months. Eight out of ten companies plan to increase staff in the country although the number of companies planning significant recruitments has fallen significantly from our last survey. Lower customer demand is the main concern followed by skilled labor shortage and high raw material costs.

The Chinese economy grew by 9.6 percent in the first six months of 2011 and China continues to outperform all other major markets in the world. The central bank has continued to raise interest rates and limited new bank loans in order to prevent a housing bubble and curb high inflation. The combination of continued monetary tightening and increased concern over how the faltering the global economy will impact China makes large North European companies more cautious in terms of sales and profit expectations in China. Only 48 percent of companies have a positive or very positive view on market prospects in the coming six months as compared to 80 percent six months ago. Less than half of companies foresee growing profits, down from two out of three in the last survey.

> “We don't see falling volumes in our own business and anecdotal evidence from our clients point at continued positivism. But it goes without saying that the Chinese government’s tightening measures in combination with a slowing world economy will have an impact on the economic climate in China”, says **Fredrik Hähnel**, Head of SEB in Shanghai.

The survey was carried out 25 August– 2 September, and shows that North European companies continue to expand in China even though the number of companies planning significant increased investments has fallen.

> “It’s natural that companies get more cautious when the economic outlook is less stable. Still, four out of five companies plan for continued investments and recruitments in the country”
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> “How the current global economic turbulence will filter through to the Chinese economy remains to be seen but SEB forecasts that China will experience 8.4 percent growth in 2012” continues Hähnel who also notes that faltering domestic demand is back as the main concern. “More than one out of four companies view lower demand as their main concern but this is still far better than the level we saw in 2009, directly after the financial crisis when over 70 percent were worried about falling demand. Difficulties to recruit competent staff and high raw material costs are the second and third largest concerns”, Hähnel concludes.

This is the sixth time SEB publishes the China Financial Index, a unique survey published semi-annually. The purpose is to mirror changes in expectations among North European companies in China, in order to facilitate the understanding of the economic and financial development in the country. The survey includes 12 questions related to the business climate, investment plans, recruitment plans and the view of currencies and interest rates. The full report can be downloaded from: www.sebgroup.com\press.

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